

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

YOUNG BROTHERS, LIMITED)

For Approval to Dispose of)
the PT&S 286-1 Barge.)
_____)

DOCKET NO. 02-0201

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

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DECISION AND ORDER NO. 19922

Filed Dec. 20, 2002

At 8:00 o'clock A.M.

Karen Higashi

Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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DECISION AND ORDER

I.

By application filed on July 31, 2002, YOUNG BROTHERS, LIMITED (Young Brothers) seeks commission approval, pursuant to Hawaii Revised Statutes (HRS) § 271G-14, to dispose of a back-up barge known as the PT&S 286-1 (PT&S), via sale to an interested buyer. Young Brothers also requests approval to engage in certain accounting treatment associated with the disposal and sale of the PT&S.

A copy of the application was served on the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy (Consumer Advocate). Young Brothers submitted its responses to the: (1) commission's information requests, on August 15, 2002; and (2) Consumer Advocate's initial and supplemental information requests, on September 24 and October 23, 2002, respectively.

By position statement filed on December 11, 2002, the Consumer Advocate does not object to Young Brothers' requests, subject to certain reporting requirements.

II.

A.

Presently, Young Brothers utilizes nine dedicated barges in its fleet to serve the neighbor island communities from its homeport in Honolulu. Of these nine barges, the PT&S was formerly used as a back-up barge.

Built in 1976, the PT&S is a flat deck barge used for containers, roll-on roll-off cargo, and automobiles. Young Brothers: (1) in October 2000, leased the used PT&S; and (2) on January 1, 2002, purchased the PT&S for \$1.4 million. Young Brothers leased and purchased the PT&S from Foss Maritime.

According to Young Brothers, it purchased the PT&S for the purpose of: (1) meeting its commitments to CSX Lines and Matson Navigation Company, for the shipment of goods to Nawiliwili, Kauai and Kahului, Maui; and (2) maintaining its full complement of nine barges, including a necessary back-up barge. Young Brothers states that its purchase of the PT&S "allows for back-up capacity to perform preventive maintenance and [to] take advantage of Special Charters."

On April 11, 2002, the PT&S ran aground off the coast of Molokai, at Laau Point, causing substantial damage to the barge's hull. This incident was covered by insurance.

The PT&S' hull is insured for \$2,292,000. An increased value limit of \$573,000 is also part of the coverage for the PT&S.

In May 2002, the PT&S was dry docked at Barbers Point to determine the extent of its damage. Young Brothers used the

damage report to solicit bids from mainland shipyards for the repair work.

In June 2002, an outside vendor, Dann Ocean Towing, transported the PT&S to the Bay Area. Young Brothers used this vendor in order to "take advantage of a one-way tow to the mainland." Had it not taken advantage of this one-way tow, Young Brothers explains that it would have had to: (1) pay for a tug boat's return trip to Honolulu; or (2) wait for another one-way tow to the mainland. Young Brothers paid Dann Ocean Towing \$76,000 for transporting the PT&S from Honolulu to the Bay Area.

Young Brothers received five repair estimates. Thereafter, on July 17, 2002, Young Brothers' underwriter declared the PT&S a constructive total loss.¹

B.

Young Brothers states that its full complement of nine barges is needed to: (1) meet its sailing schedules; and (2) conduct preventive maintenance on its fleet. Accordingly, Young Brothers plans to replace the PT&S by: (1) using its insurance proceeds to acquire a new barge in the year 2004; and

¹According to Young Brothers, its underwriter had two options: (1) repair the damage; or (2) have Young Brothers tender abandonment to its underwriter, and declare the barge a constructive total loss. Under the latter option: (1) "abandonment is only a formality[,] since underwriters never accept abandonment [of] a damaged vessel[;]" accordingly (2) Young Brothers would retain ownership of the PT&S and furnish its underwriter a salvage/scrap credit. In any event, "in this instance, the underwriters left possession of the barge to YB." The amount of the salvage/scrap credit is \$25,000.

(2) leasing a used barge during the two-year interim period "until the new barge is placed in service."

Young Brothers has already received the \$2,840,000 from its underwriter for the constructive total loss of the PT&S.² The book value of the PT&S is approximately \$1,300,000. With the insurance proceeds, Young Brothers' net gain is estimated at \$1,565,000.³ The annual depreciation expense for the PT&S is approximately \$200,000.

Young Brothers estimates that a new barge, with a projected in-service date of late 2004, will: (1) cost approximately \$7.5 to \$8 million to construct; and (2) have an estimated useful service life of 25-30 years. Young Brothers states that: (1) presently, the source of financing for the new barge has not been determined; and (2) if it seeks long-term financing, it will request the commission's approval to enter into such a commitment, pursuant to HRS § 271G-17.5.

²This amount is calculated as follows:

\$2,292,000	coverage - hull
<u>573,000</u>	coverage - value limit
\$2,865,000	
<u>(\$25,000)</u>	salvage/scrap credit
\$2,840,000	insurance proceeds

³Specifically:

\$2,840,000	insurance proceeds
<u>\$25,000</u>	salvage/scrap credit
\$2,865,000	
<u>(\$1,300,000)</u>	book value, as of 07/31/02
\$1,565,000	net gain

Young Brothers has entered into a two-year lease agreement with T&C Barges, Inc., to lease the Pacific Bear barge, at a cost of \$1,000 per day.⁴ For the two-year lease, Young Brothers estimates its costs as: (1) \$365,000 per annum to lease this used, interim barge; plus (2) \$110,000 to tow the Pacific Bear barge from Seattle, Washington to Honolulu during the first year; and (3) another \$110,000 to tow the same barge back to Seattle, Washington upon the expiration of the lease.

In addition, during the term of the lease, Young Brothers will be responsible for all expenses related to the use, operation, and maintenance of the Pacific Bear barge, and its equipment.

C.

Young Brothers seeks commission approval to dispose of the PT&S by selling it to a willing buyer for approximately \$101,000, "as is, where is."⁵ Young Brothers identifies Hawaiian Tug & Barge as a prospective buyer.

In addition, for ratemaking purposes, Young Brothers seeks to amortize the estimated net gain of the PT&S to be equal to the annual lease payments of the interim barge, plus the interim barge's transit costs, with any remaining unamortized

⁴The term of the lease is from September 9, 2002 to September 8, 2004.

⁵Specifically:

\$25,000	salvage/scrap credit
<u>\$76,000</u>	transit costs, Dann Ocean Towing
\$101,000	

balance to offset the cost of the new barge.⁶ In this respect, an illustration of Young Brothers' request is set forth in its response to PUC-IR-110, as amended by its responses to CA-SIR-8(b) and CA-SIR-9.⁷

III.

The Consumer Advocate states as follows:

1. Young Brothers' plan to sell the PT&S at the proposed sales price of \$101,000 is reasonable. However, the Consumer Advocate reserves the right to review the terms of the sale once a written agreement is in place, to determine whether the terms differ from the expected "as is, where is" condition. If so, Young Brothers should disclose the revised terms.

2. Young Brothers "should have a back-up barge for preventive maintenance purposes." In addition, based on its review of the two-year agreement to lease the Pacific Bear barge, the Consumer Advocate "does not object to the lease of the Pacific Bear since the lease will provide YB with a back-up barge for contingencies." At the same time, the Consumer Advocate "is unable to state a position on the reasonableness of the purchase price of a new barge since the Company does not have the available quotes for the cost of the new barge."

3. In two previous dockets where Young Brothers received the commission's approval to sell other barges,

⁶As previously noted, the lease of the Pacific Bear barge covers a two-year period.

⁷See also Consumer Advocate's position statement, at 7 - 8.

Young Brothers "was allowed to recognize the entire gain on the sale of each barge in the year of the sale."⁸ In the instant docket, however, the Consumer Advocate concurs that Young Brothers should be allowed to amortize the gain over a two-year period. In this instance, Young Brothers' proposed accounting treatment "will reduce the costs that are ultimately included in YB's rate base, which provides ratepayers with the benefit of a lower rate base in future rate proceedings."

4. Concomitantly, Young Brothers should take the appropriate steps to ensure the timely acquisition of a new barge, in order to prevent the continued amortization of the new gain beyond the projected two-year lease period. Thus, for monitoring purposes, the Consumer Advocate recommends that Young Brothers file semi-annual status reports on the progress of acquiring a new barge.

5. The cost to operate the Pacific Bear barge may be less than the projected maintenance, repair, and depreciation expenses of the disabled PT&S. If so, Young Brothers may experience some cost savings by "reducing its overall operations and maintenance expenses." The Consumer Advocate intends to investigate these cost savings in Young Brothers' future rate proceedings.

⁸See Docket No. 98-0355 (sale of the Kaholo barge in 1998, net gain of \$12,525, or .6 per cent); Docket No. 99-0200 (sale of the Maukana barge in 1999, net gain of \$32,427, or 1.8 per cent).

IV.

Upon thorough review, the commission will approve as reasonable Young Brothers' requests. At the same time, the commission makes clear that the scope of Young Brothers' application does not include, at this time, commission approval to acquire and purchase a new barge.

V.

THE COMMISSION ORDERS:

1. Young Brothers' request to dispose of the PT&S 286-1 barge, via sale to an interested buyer, is approved.

2. Young Brothers' request, for ratemaking purposes, to engage in certain accounting treatment associated with the disposal and sale of the PT&S 286-1 barge, is approved, consistent with the terms of this decision and order.

3. Within 15 days of execution, Young Brothers shall file copies of the sales agreement and computation of the net gain, with two copies served upon the Consumer Advocate. Young Brothers shall also state whether the final terms of the sale differ from the expected "as is, where is" condition.


4. Young Brothers shall file semi-annual status reports on its progress of acquiring a new barge, with two copies served on the Consumer Advocate. Unless ordered otherwise, status reports shall be filed by June 30 and December 31 of each year.

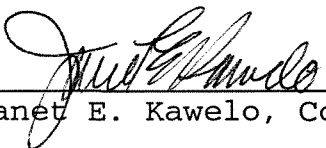
5. Within 60 days following the termination of the lease for the Pacific Bear barge, Young Brothers shall file its

information on the annual operations, maintenance, and transit costs incurred for the Pacific Bear barge, with two copies served on the Consumer Advocate.

DONE at Honolulu, Hawaii this 20th day of December, 2002.


PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Wayne H. Kimura, Chairman

By 
Janet E. Kawelo, Commissioner

By (RECUSED)
Gregg J. Kinkley, Commissioner

APPROVED AS TO FORM:


Michael Azama
Commission Counsel

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 19922 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

LISA M. K. SAKAMOTO
VICE PRESIDENT
FINANCE AND GOVERNMENT AFFAIRS
YOUNG BROTHERS, LIMITED
Pier 40, P. O. Box 3288
Honolulu, HI 96801

J. DOUGLAS ING, ESQ.
WRAY H. KONDO, ESQ.
WATANABE ING KAWASHIMA & KOMEIJI
First Hawaiian Center
999 Bishop Street, 23rd Floor
Honolulu, HI 96813



Karen Higashi

DATED: December 20, 2002